

# ANALYSIS OF AMENDED BILL

## Franchise Tax Board

Author: Leach Analyst: Kristina North Bill Number: AB 149  
Related Bills: See legislative history Telephone: 845-6978 Amended Date: APTBA  
Attorney: Patrick Kusiak Sponsor: \_\_\_\_\_

**SUBJECT:** Household And Dependent Care Credit

DEPARTMENT AMENDMENTS ACCEPTED. Amendments reflect suggestions of previous analysis of bill as introduced/amended \_\_\_\_\_.

☒ AMENDMENTS IMPACT REVENUE. A new revenue estimate is provided.

AMENDMENTS DID NOT RESOLVE THE DEPARTMENT'S CONCERNS stated in the previous analysis of bill as introduced/amended \_\_\_\_\_.

FURTHER AMENDMENTS NECESSARY.

DEPARTMENT POSITION CHANGED TO \_\_\_\_\_.

REMAINDER OF PREVIOUS ANALYSIS OF BILL AS INTRODUCED/AMENDED \_\_\_\_\_ STILL APPLIES.

☒ OTHER - See comments below.

### SUMMARY OF BILL

For the 2000 and 2001 tax years, this bill would allow taxpayers with an adjusted gross income (AGI) of \$100,000 or less an employment-related child and dependent care credit equal to a specified percentage of the federal credit.

### SUMMARY OF AMENDMENT

The proposed amendments replace the long-term care or long-term care insurance credit with the employment-related child and dependent care credit.

### EFFECTIVE DATE

This bill would apply to taxable years beginning on or after January 1, 2000, and before January 1, 2002.

### LEGISLATIVE HISTORY

AB 1728 (Floyd - 1998)- would have allowed taxpayers with an AGI of \$100,000 or less an employment-related child and dependent care credit equal to a specified percentage of the federal credit. Died in the Assembly Appropriations Committee.

### PROGRAM HISTORY

California had a similar employment-related dependent and child care credit that sunset for taxable years beginning after January 1, 1993. However, the previous credit did not completely phase out the credit based on the taxpayer's AGI. Instead, taxpayers with an AGI in excess of \$100,000 received a reduced credit equal to 15% of the federal credit.

#### Board Position:

<input type="checkbox"/> S	<input type="checkbox"/> NA	<input type="checkbox"/> NP
<input type="checkbox"/> SA	<input type="checkbox"/> O	<input type="checkbox"/> NAR
<input type="checkbox"/> N	<input type="checkbox"/> OUA	<input checked="" type="checkbox"/> PENDING

#### Department Director

#### Date

Gerald Goldberg

12/29/99

### **SPECIFIC FINDINGS**

**Current federal law** allows a credit for expenses that taxpayers incur for qualified child or dependent care expenses necessary for gainful employment or pursuit of gainful employment. The credit is equal to 30% of employment-related expenses for taxpayers with an AGI of \$10,000 or less and is reduced, but not below 20%, for taxpayers with an AGI over \$28,000. The maximum annual amount of employment-related expenses to which the credit may be applied is \$2,400 (for one child or dependent) or \$4,800 (for two or more children or dependents).

**Current state law** provides no comparable credit; however, credits are available for employers paying certain child care related expenses.

Under **this proposed amendment**, the employment-related child or dependent care credit amount would be based on the allowable federal credit as follows:

<b><u>California AGI</u></b>	<b><u>Allowable % of Federal Credit</u></b>
\$ 40,000 or less	30%
\$ 40,001 to \$ 70,000	25%
\$ 70,001 to \$100,000	20%
\$100,001 and above	0%

This state credit amount would be based on the allowable federal credit amount regardless of federal tax liability or federal AMT limitation.

Since **this proposed amendment** does not specify otherwise, the general rules in state law regarding the division of credits among taxpayers, such as husband and wife, would apply. Also, this credit would not be allowed to reduce regular tax below California TMT for purposes of calculating California AMT. Carryover of this credit would not be allowed.

### **Implementation Considerations**

This credit would require the addition of a worksheet to the tax forms booklets, which would not significantly impact this department.

### **Technical Considerations**

To clarify the author's intent that the credit percentage of the federal credit amount should be based on California AGI, Amendment 1 is provided.

Under current federal law, applicable for years 1998 through 2001, IRC Section 26 does not act to limit the availability of the federal child care credit. Thus, paragraph (2) of subdivision (a) of Section 17052.6 is unnecessary.

### **FISCAL IMPACT**

#### **Departmental Costs**

This bill would not significantly impact the department's costs.

**Tax Revenue Estimate**

Revenue losses under the Personal Income Tax Law are estimated to be:

Effective Beginning January 1, 2000 Assumed Enactment After June 30, 2000 (Millions)	
2000/2001	2001/2002
-\$47	-\$48

This analysis does not consider the possible changes in employment, personal income, or gross state product that could result from this measure.

**Tax Revenue Discussion**

Revenue losses under the Personal Income Tax Law would depend on the number of taxpayers with AGIs below \$100,000 who would qualify and claim the federal household and dependent care credit.

The above estimates were based on the department's personal income tax model projections. Special programming was done to reflect the federal law and phase-out effects.

**BOARD POSITION**

Pending.